



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 23, 2012

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **SERENITY INFANT CARE HOMES – A DEPARTMENT OF MENTAL
HEALTH CONTRACT SERVICE PROVIDER – CONTRACT
COMPLIANCE REVIEW - FISCAL YEARS 2009-10 AND 2010-11**

We completed a contract compliance review of Serenity Infant Care Homes (Serenity or Agency), covering a sample of transactions from Fiscal Years (FYs) 2009-10 and 2010-11. The Department of Mental Health (DMH) contracted with Serenity to provide mental health services, including interviewing Program participants, assessing their mental health needs, and implementing treatment plans.

The purpose of our review was to determine whether Serenity provided services in accordance with their County contracts. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with federal, State, and County guidelines.

DMH had two cost-reimbursement contracts with Serenity, and paid the Agency approximately \$1.16 million from July 2009 to April 2011. Serenity terminated their DMH contracts on April 30, 2011. The Agency provided services in the Fifth Supervisorial District.

Results of Review

DMH Program Review

Serenity maintained adequate documentation to support the billed service minutes reviewed, and completed the Client Assessments in accordance with the County contracts. However, Serenity did not complete four (27%) of the 15 Client Care Plans reviewed in accordance with the DMH contracts. In addition, Serenity did not have the required current Informed Consent form for the one client who received psychotropic medication treatment.

As noted earlier, Serenity terminated their contracts with DMH in April 2011. If Serenity contracts with DMH in the future, Agency management should ensure that Client Care Plans are completed in accordance with the County contracts, and that annual Informed Consent forms are maintained in the clients' files.

DMH Fiscal and Administrative Reviews

Serenity charged the DMH Program \$53,119 in questioned costs. Specifically, Serenity:

- Did not allocate shared expenditures as required by the Agency's Cost Allocation Plan, and/or did not maintain adequate documentation to support the expenditure allocations. Questioned costs totaled \$19,897.

Serenity's attached response indicates that they will revise their allocated shared expenditures and their FYs 2009-10 and 2010-11 Cost Reports, and repay DMH for any excess amounts received.

- Charged \$1,443 in unallowable expenditures in FY 2010-11. Specifically, Serenity charged DMH \$665 in medical insurance and \$318 in cell phone charges for an employee who did not work on the DMH contract; and \$460 for medical insurance that was paid for by the employee.

Serenity's response indicates that they will reduce their FY 2010-11 Cost Report, and repay DMH for any excess amounts received.

- Overcharged DMH by \$31,779 in FY 2010-11. Specifically, Serenity received \$554,090 from DMH, when their total expenditures for FY 2010-11 for the DMH Programs totaled \$522,311.

Serenity's response indicates that they will reduce their FY 2010-11 Cost Report, and repay DMH for any excess amounts received.

Serenity's FY 2010-11 DMH Cost Reports also exceeded its accounting records by \$220,967. According to Agency management, they mistakenly included all of the Agency's administrative costs in their total DMH expenditures, and reported \$743,278 in their Cost Reports when their accounting records only showed \$522,311 in DMH Program costs.

Serenity's response indicates that they will revise their FY 2010-11 Cost Report, and repay DMH for any excess amounts received.

In addition, Serenity did not resolve eight reconciling items, totaling \$7,758, in their March 2011 payroll bank account reconciliations that were dated from October 2003 to December 2008.

Serenity's response indicates that they had resolved the eight reconciling items, and will repay the County the amount that was inappropriately charged to the DMH program in 2004.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Serenity and DMH. Serenity's attached response indicates that they concurred with our findings and recommendations.

We thank Serenity management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JS:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Jennifer Choctaw, Executive Director, Serenity Infant Care Homes
Warren Hodges, JD, Board Chairperson, Serenity Infant Care Homes
Public Information Office
Audit Committee

**SERENITY INFANT CARE HOMES
DEPARTMENT OF MENTAL HEALTH PROGRAM
CONTRACT COMPLIANCE REVIEW
FISCAL YEARS 2009-10 and 2010-11**

BILLED SERVICES

Objective

Determine whether Serenity Infant Care Homes (Serenity or Agency) provided the services billed in accordance with their Department of Mental Health (DMH) contracts.

Verification

We selected 25 billings, totaling 1,612 minutes, from 31,610 service minutes of approved Medi-Cal billings from February and March 2011, which were the most complete billings available at the time of our review in January 2012. We reviewed the Assessments, Client Care Plans, and Progress Notes in the clients' charts for the selected billings. The 1,612 minutes represent services to 15 clients.

Results

Serenity maintained adequate documentation to support the billed service minutes reviewed, and completed the Assessments in accordance with the County contracts. However, the Agency did not always complete all the elements of the Client Care Plans and Informed Consent forms as required by their DMH contracts.

Client Care Plans

Serenity did not complete four (27%) of the 15 Client Care Plans reviewed in accordance with the DMH contracts. Specifically, Serenity did not:

- Include objectives that were specific and/or measurable for two (13%) of the 15 Client Care Plans reviewed.
- Relate the Client Care Plan to the client's needs identified in the Assessment for one (7%) of the 15 clients sampled.
- Include a medication objective for one (7%) of the 15 clients who were given medication services.

Informed Consent Forms

Serenity did not have a current Informed Consent form for the one client who received psychotropic medication treatment. Informed Consent forms document the client's agreement to a proposed course of treatment based on receiving clear, understandable information about the treatment's potential benefits and risks.

Serenity terminated their contract with DMH in April 2011. If Serenity contracts with DMH in the future, Serenity management should ensure that Client Care Plans are completed in accordance with the County contract, and that annual Informed Consent forms are obtained and maintained in the client files.

Recommendations**Serenity management:**

1. Ensure that Client Care Plans are completed in accordance with the DMH contracts.
2. Ensure that annual Informed Consent forms are obtained and maintained in the client files.

STAFFING QUALIFICATIONS**Objective**

Determine whether Serenity's treatment staff had the required qualifications to provide Program services.

Verification

We reviewed the California Board of Behavioral Sciences' website, and/or the personnel files, for seven of the nine Serenity treatment staff who provided services to DMH clients during February and March 2011.

Results

Each employee reviewed had the qualifications required to provide the billed services.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether the Agency deposited cash receipts timely, and recorded revenue in the Agency's records properly.

Verification

We interviewed Serenity's management, and reviewed their accounting records. We also reviewed the Agency's March 2011 bank reconciliations for two bank accounts.

Results

Serenity deposited cash receipts timely and recorded revenue properly in the Agency's records. However, Serenity did not resolve eight reconciling items, totaling \$7,758, that were dated from October 2003 to December 2008, and from March 2011. We were unable to verify whether the outstanding checks and deposits were related to the DMH Program, because the Agency did not provide documentation to support these reconciling items. A similar finding was also noted during our prior monitoring review.

Recommendations**Serenity management:**

3. Review the \$7,758 in reconciling items, and repay the County for any unallowable expenditures, or expenditures billed to the County that were not paid by Serenity.
4. Ensure outstanding reconciling items are resolved in a timely manner.
5. Ensure adequate documentation is maintained by the Agency to support all bank transactions.

COST ALLOCATION PLAN**Objective**

Determine whether Serenity prepared its Cost Allocation Plan in compliance with the County contracts, and used the Plan to allocate shared costs appropriately.

Verification

We reviewed the Agency's Cost Allocation Plan, interviewed management, and reviewed five shared expenditures incurred from March 2010 to April 2011, totaling \$38,176, to ensure that the expenditures were appropriately allocated to the DMH Program.

Results

Serenity's Cost Allocation Plan was prepared in compliance with the County contracts. However, Serenity did not allocate shared expenditures as required by the Agency's

Cost Allocation Plan, and did not maintain adequate documentation to support the expenditure allocations. Questioned costs totaled \$19,897. Specifically, Serenity:

- Overstated its DMH expenditures on its Cost Reports by \$15,662 (\$12,183 in FY 2009-10 and \$3,479 in FY 2010-11). A similar finding was noted during our prior monitoring review.
- Incorrectly allocated \$1,474 in communications expenditures and \$1,341 in employee benefits based on square footage, instead of direct salaries, resulting in over-allocations of \$2,815 (\$1,474 in FY 2009-10 and \$1,341 in FY 2010-11).
- Did not provide adequate documentation to support \$1,123 in mortgage interest (FY 2009-10), and \$297 (FY 2010-11) in gasoline expenditures allocated to the DMH Program.

Recommendations

Serenity management:

6. Reduce the DMH FY 2009-10 Cost Report by \$14,780 (\$12,183 + \$1,474 + \$1,123) for unsupported expenditures, and repay DMH for any excess amount received or provide additional supporting documentation.
7. Reduce the DMH FY 2010-11 Cost Report by \$5,117 (\$3,479 + \$1,341 + \$297) for unsupported expenditures, and repay DMH for any excess amount received or provide additional supporting documentation.
8. Ensure that shared expenditures are allocated as required by the Agency's Cost Allocation Plan.
9. Ensure allocations are based on actual data and supported by adequate documentation.
10. Ensure that shared expenditures are allocated on equitable basis among all benefiting programs based on actual conditions.

EXPENDITURES

Objective

Determine whether expenditures charged to the DMH Program were allowable under the contracts, documented properly, and billed accurately.

Verification

We interviewed Agency personnel, and reviewed accounting records and documentation for ten expenditures billed to DMH between January 2010 and April 2011, totaling \$10,757.

Results

Serenity charged \$1,443 in unallowable expenditures in FY 2010-11. Specifically, Serenity charged DMH \$665 in medical insurance and \$318 in cell phone expenditures for an employee who did not work on the DMH Program; and \$460 in medical insurance that was paid for by the employee.

Recommendations

Serenity management:

- 11. Reduce the FY 2010-11 DMH Cost Report by \$1,443 for unallowable expenditures, and repay DMH for any excess amount received.**
- 12. Ensure only allowable expenditures are charged to the DMH Program.**

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether the Agency's fixed assets and equipment purchased with County funds were used for the appropriate programs and were safeguarded. In addition, determine whether fixed asset depreciation expense charged to the DMH Program was allowable under the County contracts, properly documented, and accurately billed.

Verification

We interviewed Agency personnel, and reviewed the Agency's fixed assets and equipment inventory listing. We performed an inventory, and reviewed the usage of 12 items purchased with County funds.

Results

Serenity used the equipment and fixed assets purchased with County funds for the DMH Program, and the assets were safeguarded.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the DMH Program. In addition, determine whether the Agency had personnel files as required.

Verification

We traced the payroll expenditures for 11 employees, totaling \$37,524, for March 2011 to the Agency's payroll records and time reports. We also reviewed employees' personnel files.

Results

Serenity appropriately charged payroll expenditures to the DMH Program. In addition, the Agency maintained their personnel files as required by the County contracts.

Recommendation

None.

COST REPORT**Objective**

Determine whether Serenity's Cost Reports for FYs 2009-10 and 2010-11 DMH Program reconciled to the Agency's accounting records.

Verification

We traced the Agency's FYs 2009-10 and 2010-11 DMH Cost Reports to the Agency's accounting records. We also reviewed a sample of DMH Program expenditures incurred from January 2010 to April 2011.

Results

The Agency overstated their FY 2010-11 DMH Cost Reports by \$220,967. According to Agency management, they mistakenly reported \$743,278 in their Cost Reports when their accounting records only supported \$522,311 in DMH Program costs. While this error did not result in any excess payments to Serenity, the Agency should ensure that the Cost Reports are supported by their accounting records.

Recommendations

Serenity management:

- 13. Repay DMH for excess revenue received.**
- 14. Revise the FY 2010-11 Cost Report and resubmit to DMH.**
- 15. Ensure that the annual Cost Report is supported by accounting records before submitting it to DMH.**

PRIOR YEAR FOLLOW-UP

Objective

Determine the status of the recommendations reported in the prior Auditor-Controller monitoring review.

Verification

We verified whether Serenity had implemented the 13 recommendations from FY 2007-08 monitoring review. The report was issued on July 7, 2009.

Results

Serenity did not implement three (23%) of the 13 recommendations from the prior monitoring report. As previously indicated, the outstanding findings are related to Recommendations 4, 9, and 14 in this report.

Recommendation

- 16. Serenity management implement the outstanding recommendations from the prior monitoring report.**



April 3, 2012

Wendy L. Watanabe, Auditor-Controller
Countywide Contract Monitoring Division
Los Angeles County Department of the Auditor Controller
1000 S. Fremont St.
Alhambra, Ca. 91803-4737

RE: Serenity Infant Care Homes, Inc.
Contract Compliance Review - FY 2009/10 and 2010/11
Agency Response and Corrective Action Plan

Dear Ms. Watanabe,

We are in receipt of the report from the Auditor-Controller pertaining to the fiscal and program review of our contract with the Department of Mental Health. Although Serenity has voluntarily terminated its contract with the Department of Children and Family Services effective 4/30/2011, this letter serves as our formal response to those findings and a plan for corrective action where possible and necessary.

Billed Services

Results

Serenity maintained adequate documentation to support the billed service minutes sampled and completed the Assessments in accordance with the County contracts. However, the Agency did not always complete all the elements of the Client Care Plans and Informed Consent forms as required by their DMH contracts.

Client Care Plans

Serenity did not complete four (27%) of the 15 Client Care Plans reviewed in accordance with the DMH contracts. Specifically, Serenity did not:

- Include objectives that were specific and/or measurable for two (13%) of the 15 Client Care Plans reviewed.
- Relate the Client Care Plan to the client's needs identified in the Assessment for one (7%) of the 15 clients sampled.
- Include a medication objective for one (7%) of the 15 clients who was given medication services.

Informed Consent Forms

Serenity did not maintain a current Informed Consent form for the one (100%) client who received psychotropic medication treatment. Informed Consent forms document the client's agreement to a proposed course of treatment based on receiving clear, understandable information about the treatment's potential benefits and risks.

Recommendations

Serenity management:

1. Ensure that Client Care Plans are completed in accordance with the DMH contracts.
2. Ensure that annual Informed Consent forms are obtained and maintained in the client files.

Serenity Response

1. Serenity terminated its contractual agreement with DMH in April 2011 and transitioned its remaining children, along with their therapists, to another DMH provider.
2. All of the clinical staff responsible for ensuring compliance with the contract are no longer employed by Serenity.

The recommendations would have immediately been instituted; however, approximately one year later (March 2012) after termination of the contract, these recommendations are not correctible.

Cash/Revenue

Results

Serenity deposited cash receipts timely and recorded revenue properly in the Agency's records. However, Serenity did not resolve eight reconciling items, totaling \$7,758, in their March 2011 payroll bank account reconciliation that were from October 2003 to December 2008. We were unable to verify whether the outstanding checks and deposits were related to the DMH Program because the Agency did not provide documentation to support these reconciling items. A similar finding was also noted during the prior monitoring review.

Recommendations

Serenity management:

3. Review the \$7,758 in reconciling items and repay the County for any unallowable County expenditures or expenditures billed to the County but not paid by Serenity.
4. Ensure outstanding reconciling items are resolved in a timely manner.
5. Ensure adequate documentation is maintained in the Agency's file to support all bank transactions.

Serenity Response

3. The reconciling items in question were reviewed and resolved. Serenity will repay the county \$33.58 which represents the amount that was inappropriately allocated to the DMH program in 2004.
4. Serenity's policy regarding reconciling items was reinforced during the previous Auditor Controller audit and is evidenced by the fact that there are no additional findings in this area. We will continue to ensure that outstanding items are resolved in a timely manner.
5. Serenity continues to maintain documentation to support all bank transactions.

Cost Allocation Plan

Results

Serenity's Cost Allocation Plan was prepared in compliance with the County contracts. However, Serenity did not allocate shared expenditures as required by the Agency's Cost Allocation Plan, and/or maintain adequate documentation to support the expenditure allocation. Questioned costs totaled \$19,897. Specifically, Serenity:

- Did not reduce their indirect payroll allocation in the DMH accounting records after reductions were made to the administrative salary cost pool and overstated the DMH program expenditures by \$15,662 (\$12,183 in FY 2009-10 and \$3,479 in FY 2010-11). A similar finding was also noted during the prior monitoring review.
- Incorrectly allocated \$1,474 communications expenditures and \$1,341 of employee benefits based on square footages rather than direct salaries resulting in over-allocations of \$2,815 (\$1,474 in FY 2009-10 and \$1,341 in FY 2010-11).
- Did not provide adequate documentation to support \$1,123 in mortgage interest and \$297 in gasoline allocations (\$1,123 in FY 2009-10 and \$297 in FY 2010-11).

Recommendations

Serenity management:

6. Reduce the DMH FY 2009-10 Cost Report by \$14,780 (\$12,183 + \$1,474 + \$1,123) for unsupported expenditures and repay DMH for any excess amount received or provide additional supporting documentation.
7. Reduce the DMH FY 2010-11 Cost Report by \$5,117 (\$3,479 + \$1,341 + \$297) for unsupported expenditures and repay DMH for any excess amount received or provide additional supporting documentation.
8. Ensure that shared expenditures are allocated as required by the Agency's Cost Allocation Plan.
9. Ensure allocations are based on actual data and supported by adequate documentation.
10. Ensure that shared expenditures are allowable and are allocated on equitable basis among all benefiting Program based on actual conditions.

Serenity Response

6. Serenity will revise its 2009/10 Cost report to reflect the recommended reduction in unsupported expenditures and repay DMH for any excess amounts received.
7. Serenity will revise its 2010/11 Cost report to reflect the recommended reduction in unsupported expenditures and repay DMH for any excess amounts received.
- 8,9,10. This audit has made us fully aware of the importance of adequate documentation of expenditure allocations among all benefiting programs on actual conditions. The revised cost reports for the above fiscal years will reflect proper and equitable allocations.

Expenditures

Results

Serenity charged \$1,443 in unallowable expenditures in FY 2010-11. Specifically, Serenity charged DMH \$665 in medical insurance and \$318 in cell phone expenditures that were provided to a non-DMH employee. In addition, the Agency charged the DMH Program \$460 for medical insurance premium that was paid by the employee.

Recommendations

Serenity management:

11. Reduce the FY 2010-11 DMH Cost Report by \$1,443 for unallowable expenditures and repay DMH for any excess amount received.
12. Ensure only allowable expenditures are charged to the DMH Program.

Serenity Response:

Serenity will revise its 2010/11 Cost Report to reflect the above recommendations and repay DMH for any excess amounts received.

Cost Report

Results

Serenity's FY 2010-11 DMH Cost Reports exceeded its accounting records by \$220,967. According to Agency management, they mistakenly included all the Agency's administrative costs in their total DMH expenditures and reported \$743,278 in their Cost Reports when their accounting records only supported \$522,311 in DMH Program costs. In addition, Serenity was overpaid by \$31,779 in FY 2010-11. Specifically, Serenity received \$554,090 from DMH when their DMH total expenditures totaled \$522,311. A similar finding was also noted during the prior monitoring review.

Recommendations

Serenity management:

13. Repay DMH \$31,779 for excess revenue received.
14. Revise the FY 2010-11 Cost Report and resubmit to DMH.
15. Ensure that the annual Cost Report is supported by accounting records prior to submitting it to DMH.

Serenity Response

Our 2010/11 Cost Report will be revised and resubmitted. We will repay DMH for any excess revenue received. We were required to submit the 2010/11 cost report earlier than other DMH contractors because of the voluntary termination of our contract on April 30, 2011. It should be noted that the 2010/11 Cost Report template has not yet been finalized by DMH. We will notify DMH of the discrepancies noted and will incorporate the Auditor Controllers recommendations in our report.

Prior Year Follow-Up

Results

Serenity did not implement three (23%) of the 13 recommendations contained in the prior monitoring report. As previously indicated, the outstanding findings are related to Recommendations 4, 9 and 14 contained in this report.

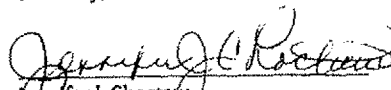
Recommendation

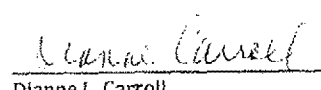
16. Serenity management implement the outstanding recommendations from the prior monitoring report.

Serenity Response

All items have been addressed in our above responses.

Sincerely,


Jennifer J. Choctaw
Executive Director


Dianne L. Carroll
Finance Director